

ABSTRACT

Horizontal Fiscal Imbalance in India has been a persistent issue relating to fiscal federalism. It is important to understand that fiscal capacities of the states must be equalized for the disparities to diminish. This study is based on a two-stage exercise wherein the first stage examines the possibility of a convergence in per capita gross state domestic products in India, and the second stage with respect to the determinants of education and health expenditures of the states. It is observed that there exists divergence and also, that there is reason to believe that expenditures on education and health can be equalized for resolving Horizontal Fiscal Imbalances in the long run.